

State Notes

TOPICS OF LEGISLATIVE INTEREST

Summer 2026



The Michigan Prediction Market

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Executive Summary

- Prediction markets have grown considerably over the past year and currently have a monthly betting volume of \$47.0 billion globally.
- The State of Michigan is currently involved in a legal case over the classification of bets made on prediction markets.
- Several options exist for the State in regulating and operating prediction markets.

History

Prediction markets are a form of wagering in which the participant bets on an outcome of future events that have not yet been determined.¹ The wagering is similar to sports betting, such as betting on the outcome of a basketball game; however, it has expanded to include betting on events far wider than just sports. For instance, prediction market platforms have hosted bets on prediction about certain celebrities' social media post counts, elections of politicians, stock market movements, and geopolitical situations. These trades are made on platforms like Polymarket and Kalshi.

Earlier versions of prediction markets were offered by various casinos to patrons. Casinos have offered betting on political elections, Oscar winners, and even weather-related events. Any event that garners headlines could be turned into a betting opportunity. As prediction markets have gained popularity, the volume of bets has increased. As of June 2026, the monthly volume of betting had risen to \$47.0 billion. The growth of betting over the past year is shown below in [Table 1](#).

Month/Year	Kalshi	Polymarket excluding US	Polymarket US
July 2025	0.7	1.3	0.0
August 2025	0.9	1.1	0.0
September 2025	2.9	1.7	0.0
October 2025	4.4	4.1	0.0
November 2025	5.8	4.3	0.0
December 2025	6.6	5.3	0.0
January 2026	9.6	7.7	0.2
February 2026	10.4	7.9	0.0
March 2026	13.0	10.6	0.7
April 2026	14.8	9.0	1.3
May 2026	16.8	7.1	1.8
June 2026	33.0	10.7	3.3

Source: The Block, Retrieved 7-17-26.

Issues with Prediction Markets

There are several regulatory concerns that the State could face with the growth in prediction markets. The first is the possible manipulation of the outcome of the event on which bets are placed.² Betting on elections, for instance, was illegal in the United States; however, starting in 2024, the Federally regulated prediction markets have been allowed to offer swaps on elections.

The growth in prediction markets has also increased concerns surrounding the potential for insider trading. The market is meant to operate on a fair level; if insiders are trading based on nonpublic knowledge, there is an incentive to cheat other bettors by using that inside information to win bets. This harms the legitimacy of the prediction platform and can result in civil liability and criminal charges for insider trading. There have been several examples of this in the news recently, including one widely reported story related to the Maduro military operation in which a soldier involved in capturing former Venezuelan President Nicolas Maduro was found to have bet on the capture.³ The soldier, knowing that the operation was going to happen, bet on President Maduro's ouster and won over \$400,000. This soldier faces both a civil complaint filed by the Commodity Futures Trading Commission (CFTC) and criminal charges filed by the Department of Justice (DOJ).

The final two concerns discussed in this paper relate to tax revenue. The first is in regard to the individual income tax (IIT). The State has a 4.25% income tax and any winnings from a prediction market are taxable income in Michigan. However, winnings below a certain threshold do not require issuance of a Form 1099 (the Internal Revenue Service-required form for reporting such income). Kalshi reports the income if it is above the threshold; however, Polymarket does not report the winnings. If winnings are not reported to the State, it is difficult for this income to be tracked and the incentive to report is lessened, which ultimately reduces revenue.

The second concern related to tax revenue is the revenue paid by the companies that operate the prediction markets. Companies operating outside Michigan, depending on the income they earn in Michigan, may not have to claim a tax nexus in the State. Additionally, gaming tax rates on companies are much higher than the 6.0% Corporate Income Tax (CIT) and can reach as high as 28%. The State is in a legal battle with prediction markets over the classification of these actions and the rights of the State to regulate them. The position of the Federal government is that these sport and other event contracts are classified as swaps under the Commodity Exchange Act (CEA), and are not classified as gambling. According to the CEA, a swap is any agreement, contract, or transaction whose value is based on, or derived from, an underlying rate, price, value, event, or other financial or economic measure, and that transfers financial risk between parties.⁴ By classifying these activities as swaps rather than gambling, the companies reduce the amount of tax they pay to the State.

Legality

The State of Michigan has already started to enforce its gambling laws against prediction market platforms, at least with respect to sports betting. On March 3, 2026, Attorney General Dana Nessel sued KalshiEX in State court for violations of the Lawful Sports Betting Act (LSBA) (and for common law nuisance based on violations of other laws).⁵ The next day, Kalshi and QCX LLC (which does business as Polymarket US) sued the Attorney General and members of the Michigan Gaming Control Board in Federal court in separate actions to enjoin enforcement of the LSBA as it might apply to Kalshi and Polymarket US on the grounds that the LSBA is preempted by the CEA's framework for regulating swaps and commodity futures trading.⁶ On June 17, 2026, Judge Paul Maloney for the US District Court Western District of Michigan issued parallel opinions in both cases

declining to grant preliminary injunctions against Michigan's enforcement of the LSBA.⁷ Both opinions declined to do so on the grounds that the swap contracts at issue likely fall outside the CFTC's authority.⁸ Subsequent to the US District Court's decisions, the State of Michigan secured a temporary restraining order preventing Kalshi from offering online sports wagers to State residents.⁹ As of publication, this litigation is ongoing.

In addition to the legal case in Michigan, other cases involving the Indian Gaming Association argue these markets are threatening the exclusivity of tribal-state gaming compacts. There are three such cases: a suit involving three California tribes, *Blue Lake Rancheria v. Kalshi*;¹⁰ *Ho-Chunk Nation (Wisconsin) v. Kalshi*;¹¹ and a suit involving four New Mexico tribes, *Mescalero Apache Tribe v. Kalshi*.¹² While Michigan does not have an exclusive gaming compact with the tribes in the State, the issue could arise as tribes have an interest in how gaming is regulated. The argument aligns with the State's position that these sports events contracts are not swaps but rather gambling. For example, if an individual goes to a casino, or uses a casino's online app, the individual can bet on the Detroit Lions to win on a specific Sunday against the Green Bay Packers. The prediction market may offer a "swap" for a bet on a prediction that the Lions will win on a specific Sunday. Whereas in the casino an individual is betting on the Lions or the Packers, on the prediction market you are choosing "yes" or "no" for the Lions winning on a specific Sunday. The argument is that this is, essentially, the same bet and is therefore gambling.

These cases revolve around sports betting and not the wider prediction markets but could affect all prediction markets, not just the sports-betting markets. Moreover, these decisions, occurring throughout the country, could be the first step in the state regulation of prediction markets.

The Federal government, however, is arguing that state laws governing prediction market platforms and wagering are preempted under Federal law. Preemption is a constitutionally derived power that allows Federal law to override conflicting state laws. Specifically, the CFTC contends that it has exclusive jurisdiction over transactions involving event contracts, and it has asserted this authority in a number of venues, including the courts (via amicus briefs).¹³ If the Federal government is successful in these cases, then states likely will not be able to regulate the prediction markets as gambling.

The Framework

Presuming that state regulation of prediction markets and the associated platforms is not preempted, there are multiple approaches that could address the aforementioned regulatory concerns with prediction markets at the state level. Three of these will be discussed in this section.

The first approach is for the State to concede that prediction markets are swaps (not gambling) and to allow the prediction markets to continue to operate as they currently do. In this scenario, the State would collect CIT revenue (assuming that the companies have sufficient business in the State) but would not collect the higher gaming taxes from these companies. In addition, the 4.25% IIT would still apply, though potentially without Form 1099 reporting. This would allow the companies to operate in the State under Federal regulations. If preemption were upheld in the courts, this also would be the likely outcome.

A second approach is on the opposite end of the spectrum, excluding an outright ban; the State could create and run its own prediction market, giving itself a monopoly, similar to how the lottery operates. There is precedence for this as the University of Iowa, a public university, currently operates a prediction market.¹⁴ This would require the State to create and operate a website, similar to other prediction market platforms like Kalshi and Polymarket, which would allow those physically

present in Michigan and of legal age to bet in the prediction markets. Fees collected by the State from the bettors would go to operating the site and regulatory oversight, and additional revenue raised would be available for other uses, such as education or other areas as enacted. This approach would be similar to how the profits from the lottery or State-run gaming are currently used.

As this would be available only for people present in Michigan, the money that was bet likely would remain in the State, as opposed to betting in Kalshi or Polymarket in which a Michigan resident may be betting against someone from California or Canada. As all bettors would be in the State, those funds likely would just shift between people in Michigan. As for taxes, the State would have individual records of the transactions and winnings, which would allow the State Treasury to collect income taxes owed, or even have the taxes taken out of an individual's account directly. A State-operated market, however, could increase liabilities to the State if, for instance, bets had to be refunded. This issue could arise if there were illegal betting, for instance a bet using insider information. The State also would have to fund the creation of the platform and if the volume of betting is too low, the State could face losses. It is possible that this approach could run similar to the multistate lottery in which multiple states participate in a joint lottery, which is governed by the Multi-State Lottery Association (MUSL). Under this agreement lottery ticket revenue is paid to the states proportionally by ticket sales with the remaining amount used as prizes.

A third approach would be to allow the current casinos and their online operators to partner with the State to offer prediction markets in Michigan. This would operate much like the second solution; however, the State would simply regulate, not operate, the markets (similar to how the casinos and online gaming currently work in Michigan). Taxes would be considered "Expanded Gaming", also called "Internet Gaming", if done online or would be considered "Casino Tax" if done in a casino, with tax revenue going to the School Aid Fund. In addition, casinos in the State already have the systems in place for the tracking and collection of IIT from winnings. This solution would be a middle ground between allowing the prediction markets to operate as they currently do and State control and operation of the markets. This would allow private industry to operate the market, which would remove financial liabilities from the State.

Conclusion

As prediction markets continue to climb in popularity and activity in those markets increases in volume, Michigan is at a crossroads with how to approach the regulation and operation of prediction markets (assuming the states will have the ability to regulate them). While various states are involved in lawsuits, currently, no states have publicly endorsed prediction markets. As this is an emerging area, states are proceeding cautiously toward the new markets. While many facets of the issue are working their way through the court system, there may be considerable benefits to preempting the courts and allowing prediction markets to exist in the State. There are several solutions to how these markets could operate, three of which are presented in this paper. The State has a wide range of approaches from one end of the spectrum, allowing the current prediction markets to operate in the State as they do in other states and countries, to the other end of the spectrum, where the State takes full control of the prediction market and runs it similarly to the lottery, or possibly a third option somewhere in the middle of the two extremes, allowing the casinos and their online partners to operate these markets and be regulated by the State. No matter which approach is taken, the regulation of prediction markets represents a new area of policy development and implementation.

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¹ "Understanding Prediction Markets and Event Contracts", US Commodity Futures Trading Commission (CFTC), www.cftc.gov/learnandproect/predictionmarkets.

² Moran, Rachel, "In Election Betting, Voters Face the Highest Stakes", Brennan Center for Justice, 6-30-2026. Available at www.brennancenter.org.

³ "U.S. soldier pleads not guilty to charges of gambling on Maduro raid", *CBS News*, 4-30-2026.

⁴ 7 USC § 1a(47)(A).

⁵ See Complaint, *Nessel v. KalshiEX LLC*, 26-001087-CZ (Ingham Cnty. Ct. Mar. 3, 2026).

⁶ See Complaints, *Robinhood Derivatives, LLC, v. Nessel*, Case No. 1:26-cv-00730-PLM-PJG (W.D. Mich., March 4, 2026) and *QCX LLC v. Nessel*, Case No. 1:26-cv-00710-PLM-PJG (W.D. Mich., March 4, 2026).

⁷ *Robinhood Derivatives, LLC, v. Nessel*, Case No. 1:26-cv-00730-PLM-PJG (W.D. Mich., June 17, 2026); *QCX LLC v. Nessel*, Case No. 1:26-cv-00710-PLM-PJG (W.D. Mich., June 18, 2026).

⁸ *Id.* It is worth noting that this decision is not a final decision on the merits, only whether to grant a preliminary injunction. In order to succeed in its request for a preliminary injunction, a plaintiff must demonstrate that they are likely to succeed on the merits, they are likely to suffer irreparable harm absent the injunction, the balance of equities favors them, and the injunction is in the public interest. Here, the court essentially holds that it does not believe that the plaintiff platforms will succeed on the merits if litigated.

⁹ *Nessel v. KalshiEX LLC*, No 26-1087-CZ, Order Granting Temporary Restraining Order (Mich. Cir. Ct. Ingham Cnty. June 29, 2026) (Aquilina, J.).

¹⁰ No. 3:25-cv-06162-JSC (N.D. Cal.).

¹¹ No. 3:25-cv-00698-WMC (W.D. Wis.).

¹² *Mescalero Apache Tribe v. Kalshi Inc.*, No. 1:26-cv-01517-MIS (D.N.M.).

¹³ See, e.g., "CFTC Reaffirms Exclusive Jurisdiction Over Prediction Markets in Sixth Circuit Amicus Brief", CFTC Release Number 9230-26, 5-12-2026.

¹⁴ "Welcome to the IEM", Iowa Electronic Markets, available at: <https://iem.uiowa.edu/iem/>. Retrieved on 8-13-26.